

Message Text

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ACTION EB-06

INFO OCT-01 AF-10 ARA-10 EUR-12 EA-10 NEA-10 ISO-00 IO-10

AEC-07 AID-05 CEA-01 CIAE-00 CIEP-02 COME-00 DODE-00

FEAE-00 FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05

OMB-01 PM-03 RSC-01 SAM-01 OES-04 SP-02 SS-15 STR-04

TRSE-00 FRB-01 PA-02 PRS-01 USIA-15 /156 W

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R 242106Z OCT 74

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 6400

INFO AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY DHARAN

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS CARACAS 10605

E.O. 11652: N/A

TAGS: ENRG, VE

SUBJECT: VENEZUELAN INPUT TO OPEC WORKING GROUP
FOR SINGLE OIL PRICE AND UNIFORM PROFIT

1. PRIOR TO HIS DEPARTURE TO PARTICPATE IN OPEC
WORKING GROUP MEETING IN VIENNA BEGINNING OCTOBER 23,
MINES MINISTRY EXECUTIVE SECRETARY HERNAN ANZOLA
TOLD EMBASSY PETATT THAT ARTICLE PUBLISHED IN CARACAS "RESUMEN"
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ISSUE OF OCTOBER 20 IS VENEZUELAN BACKGROUND PAPER

FOR MEETING. ARTICLE BEINGS WITH STATEMENT THAT WORKING GROUP NOW MEETING IN VIENNA, WHICH WAS CONSTITUTED DURING OPEC SEPTEMBER MINISTERIAL MEETING BUT LITTLE NOTED BY INTERNATIONAL PRESS, IS ONE OF MOST IMPORTANT DECISIONS TAKEN BY OPEC. WORKING GROUP IS CONCERNED WITH RESOLVING CONFUSION OF MULTIPLE OIL PRICES AND ALLEGED EXCESS OIL COMPANY PROFITS.

2. AS EXAMPLE OF SUCH EXCESS PROFITS, ARTICLE GIVES OIL COMPANY COST OF TYPICAL BARREL OF VENEZUELAN OIL. COST IS COMPOSED OF FOLLOWING ELEMENTS: (A) EXPORT VALUE - \$13.84, LESS (B) OPERATION COST - 0.81, AND (C) ROYALTY - 2.26, FOR (D) VALUE SUBJECT TO INCOME TAX (AT OLD 58 PERCENT RATE) - 10.77, GIVING (E) INCOME TAX - 6/25, COMBINED WITH ROYALTY SHOWN IN C FOR (F) VENEZUELAN TOTAL TAX TAKE - 8.51, COMBINED WITH OPERATION COST SHOWN IN B FOR (G) TOTAL COST TO COMPANY - \$9.32. DIFFERENCE BETWEEN TOTAL COMPANY COST AND EXPORT VALUE IN ABOVE EXAMPLE IS \$4.52 PER TYPICAL BARREL WHICH ARTICLE DEFINES AS EXCESSIVE. ACCORDING TO ARTICLE, TYPICAL EXPORT VALUE OF \$13.84 FOR VENEZUELAN OIL IS COMMONLY AND ERRONEOUSLY REFERRED TO AS THE PETROLEUM PRICE.

3. ARTICLE DOES NOT CLAIM THAT OIL COMPANIES EARNED THE FULL \$4.52 PER BARREL DIFFERENCE, IN SPITE OF FACT THAT SOME SALES WERE EFFECTED IN MIDDLE EAST DURING HEIGHT OF CRISIS AT EVEN HIGHER EXPORT VALUES THAN THE EXAMPLE CITED ABOVE. HOWEVER, ARTICLE CLAIMS IT IS CLEAR THAT OIL COMPANIES DID OBTAIN EARNINGS DURING CRISIS PERIOD WELL ABOVE \$0.50 PER BARREL LEVEL CONSIDERED REASONABLE BY OPEC ECONOMIC COMMISSION. (SOME REPORTS HERE SAY THAT VENEZUELAN DELEGATION TO CURRENT MEETING WILL PUSH FOR \$0.40 PER BARREL UNIFORM COMPANY PROFIT LEVEL.) EXCESSIVE EARNINGS ARE NOT REFLECTED IN OPERATIONS OF COMPANIES IN COUNTRIES WHERE OIL IS PRODUCED, BUT RATHER IN THE COUNTRIES WHERE OIL COMPANY HOME OFFICES ARE LOCATED, THROUGH DEVICE OF THE TRANSFER PRICE. THIS EXPLAINS WHY HOME OFFICE COMPANIES OF OIL COMPANIES OPERATING IN VENEZUELA HAVE DECLARED EARNINGS WELL ABOVE LEVEL OF PREVIOUS YEAR, WHILE THEIR SUBSIDIARIES OPERATING HERE REPORT HARDLY ANY CHANGE IN EARNINGS LEVEL. THIS SITUATION IS HARD TO COMPREHEND IN VIEW OF FACT THAT A LARGE PERCENTAGE OF THE CRUDE MOVED BY THE (UNNAMED) HOME OFFICE COMES FROM VENEZUELAN SUBSIDIARY. THUS, EXCESSIVE EARNINGS

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ATTRIBUTED TO PRODUCER COUNTRIES AND PASSED TO THE CONSUMER HAVE ONLY BENEFITED THE LARGE MULTINATIONAL COMPANIES.

4. SITUATION IS ALLEGED TO BE EVEN MORE CONFUSING IN MIDDLE EAST COUNTRIES. WHILE EXCEPT FOR SMALL VOLUME OF OIL MARKETED BY STATE COMPANY, VENEZUELAN CRUDE IS MANAGED UNDER CONCESSION REGIME, MIDDLE EAST CRUDE IS MARKETED UNDER SUCH DIVERSE ARRANGEMENTS AS PARTICIPATION, CONCESSION, SERVICE CONTRACT AND

IMPORTANT NATIONAL COMPANIES, EACH OF WHICH WITH DIFFERENT PRICING SCHEMES. RESULT IS SITUATION OF PRACTICAL ANARCHY AND SPECULATION IN WHICH NEITHER PRODUCER NOR CONSUMER BENEFITS. SITUATION HAS REACHED POINT WHERE IT PRACTICALLY IMPOSSIBLE TO DETERMINE WITH PRECISION PRICE OF BARREL OF OIL IN INTERNATIONAL MARKET.

5. ARTICLE CONCLUDES THAT PRESENT SYSTEM OF ESTABLISHING EXPORT VALUES AND PRICES HAS NO RELATIONSHIP TO REAL COST OF CRUDES NOR TO FISCAL REVENUE THAT OPEC MEMBER COUNTRIES OBTAIN. SINCE NEITHER PRODUCERS NOR CONSUMERS ARE BENEFITING UNDER PRESENT SYSTEM, ECONOMIC COMMISSION WORKING GROUP WILL STUDY AND SEEK SOLUTIONS. HOPEFULLY, WORKING GROUP EXPERTS WILL PROPOSE A NEW PETROLEUM PRICE SYSTEM CAPABLE OF BEING MAINTAINED OVER LONGER PERIOD OF TIME.

6. COMMENT: VENEZUELAN, LIKE NIGERIANS, ARE GROWING WEARY OF QUANTITY OF WORK REQUIRED TO PREPARE FOR QUARTERLY OPEC MINISTERIAL MEETINGS AND INTERVENING ECONOMIC COMMISSION MEETINGS, SINCE ALL PREPARATIONS ARE DONE BY SAME LIMITED STAFF. SCHEME BEING STUDIED BY WORKING GROUP WOULD OBVIATE QUARTERLY CONSULTATION AND COMPLEX PRICING REVISIONS. OFFICIALS IN MINES MINISTRY WE HAVE CONSULTED ALSO APPEAR TO SERIOUSLY BELIEVE THAT BY PUTTING HEAT ON OIL COMPANY PROFITS THEY CAN TURN IT OFF ON LEVEL OF GOVERNMENT TAKE. WHETHER OR NOT SINGLE OIL PRICE AND UNIFORM PROFIT PROPOSAL ORIGINATED WITH VENEZUELA, MINES MINISTRY OFFICIALS WILL CLEARLY TRY TO TAKE CREDIT FOR IT IF ACCEPTED BY THE OTHER OPEC MEMBERS IN THE DECEMBER MEETING.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, COMMITTEE MEETINGS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 24 OCT 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974CARACA10605
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740305-0489
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741021/aaaaarew.tel
Line Count: 144
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 11 MAR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 MAR 2002 by chappeld>; APPROVED <23 MAY 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: VENEZUELAN INPUT TO OPEC WORKING GROUP FOR SINGLE OIL PRICE AND UNIFORM PROFIT
TAGS: ENRG, VE, OPEC
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005